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IMPACT OF DIVIDEND POLICY ON THE PERFORMANCE OF SELECTED AUTOMOBILE COMPANIES IN THE NSE

Durga Sankar Dasari
Research Scholar, Dept of Commerce, Yogi Vemana University, Kadapa, Andhra Pradesh, India

Prof. S. Raghunatha Reddy
Professor, Dept of Commerce, Yogi Vemana University, Kadapa, Andhra Pradesh, India

Abstract

In this study examines the impact of dividend policy on the financial and market dynamics of selected automobile companies listed in the Nifty 50 index on the NSE. Five leading automobile companies Hero MotoCorp, Mahindra & Mahindra, Maruti Suzuki, Bajaj Auto, and Eicher Motors were chosen for this analysis. The independent variables examined include Earnings per Share (EPS), Dividend per Share (DPS), and Price to Earnings (PE), while the dependent variables are Return on Assets (ROA) and, Return on Equity (ROE), which represent company performance. Secondary data for the period from 2020 to 2024 were sourced from moneycontrol.com and the NSE website. The findings reveal that Dividend per Share is positively correlated with both EPS and the Price to Earnings ratio. However, ROE as a dependent variable does not exhibit a significant influence on DPS, PE, and EPS. On the other hand, ROA is significantly influenced by DPS, PE, and EPS. The study highlights that dividend pay-outs and policies play a crucial role in shaping investor sentiment, stabilizing share prices, and driving overall corporate performance. A good dividend policy to be inculcated in the selected automobile companies listed in the Nifty 50 index is also very helpful as it not confuses the confidence of investors, provides them with a brighter future and also helps in creating a stable growth and stability in the invested money in automobile companies.

Keywords: Automobile companies, Dividend, Earning per share, Firm Performance, Price earning ratio.

1. Introduction

The dividend policy of a company is a fundamental aspect of corporate financial management, influencing both investor satisfaction and the long-term growth trajectory

of firms. Dividend policy represents the way in which a company decides upon the distribution of its earnings among shareholders, striking a balance between reinvestment to fund future growth, and providing a dividend. In capital intensive industries such as the automobile sector, companies often have large capital expenditure demands for research, development and expansion (Miller & Modigliani, 1961), this decision is particularly important. The automobile sector is a major sector in the National Stock Exchange (NSE) context in India and includes both established players and emerging firms that are increasingly being affected by global trends, competition and evolving consumer preferences (Bansal & Rani, 2014).

A large body of research attempt to explore the relationship between dividend policy and corporate performance, and the results of these studies are mixed. Traditional dividend theories, such as the Modigliani-Miller proposition (1961), suggest that under perfect markets the dividend policy will not affect the value of a firm, however, as it's also true that real world markets typically have imperfections, empirical studies show that a firm's dividend policy can affect stock price, investor perception, and the overall health of the financial part its entire body (Lintner, 1956; Gordon, 1959). More specifically, in the automobile sector, dividend policies have been frequently used as a signalling device of corporate stability and profitability to convey information about the firm's future prospects and capital needs (Fama and French, 2001). But just as paying dividends requires some of the company's profits, so do companies in this sector have to allocate a significant proportion of their profits for reinvestment to stay competitive, which complicates the decision between paying dividends and retaining earnings and its ramifications are wide reaching.

The aim of this research is to evaluate the effect of dividend policy on the performance of automobile companies listed on the NSE, based on the key performance metric, the Earnings per Share (EPS) Return on Assets (ROA) and stock price performance. This study examines the relationship between the pay out in dividends vs. reinvestment strategies through analysis of financial data of major automobile companies over time in order to find out if dividends are correlated with better performance for companies over time or if reinvestment strategies provide a better long-term result for shareholders.

2. Review of Literature

Bhalla (2023) the objective of this study is to assess the role of dividend policy in contributing to share price volatility of the NIFTY 100 index companies which are listed in National Stock Exchange (NSE). Panel data methodology is used to analyse 100 listed companies in NSE from 2018 to 2022. The explanatory variables include dividend pay-out, dividend yield as well as dividend per share, while control variables such as firm size and financial leverage are used to evaluate firms' dividend policies. The data were

analysed by means of a multivariable regression model to which we applied necessary panel data tests. Results are consistent with the dividend irrelevance theory, in that there is no significant relationship between share price volatility and dividend policies at the index level. Further, sector specific analysis verified the dividend irrelevance theory in the Automobile and Healthcare sectors, and for financial companies in NIFTY 100 index.

Kalia, and Naseem (2021) mentioned in their study focused on the study of the effect of dividend policy on shareholder wealth for India's top five automobile firms, which are selected on the basis of market capitalization. Dividend per Share (DPS) and Earnings per Share (EPS) were chosen as wealth indicators for shareholders, and as indicators for dividend policy, respectively, drawing from literature, and all data was collected between 2011 and 2016. Correlation and simple regression techniques were applied over the data to be analysed. The study's findings are that dividend policy has a significant impact on shareholder wealth, and therefore supports the validity theory of dividend policy.

Tandon, and Kaur (2021) the study highlights that equity performance of selected companies in the Indian automobile industry is analysed. Secondary data from BSE website for the period 2015 to 2020 was used for the research. The study concentrates on the stock performance of 10 companies in the automobile sector. As per the findings, Bajaj Auto Ltd is more in comparison of 0.839781, meaning a less risky investment with a beta. Tata Motors, on the other hand, has a beta of 1.349615, which means it is more volatile, but produces a negative return (-0.001724). Bajaj Auto and TVS Motors, are the firms that have the most attractive returns and a beta of less than one in the companies being analysed. While Tata Motors has a beta greater than one and greater than Maruti Suzuki, which also shows positive returns making it a viable investment option.

Laljani, and Kharecha (2021) their study aimed at getting to know what relationship runs between dividend pay-outs and the profitability of certain companies. For this research, secondary data was collected for five automobile companies selected after ascertaining their market volume, from 2015, 2016 till 2019, 2020. Data from the collected data was analysed based on various profitability and liquidity ratios. One-Way Analysis of Variance (ANOVA) and correlation analysis were used to assess the financial performance of selected companies. It is found that liquidity ratios are correlated, but not profitability or dividend pay-outs during this study period.

Bajaja, and Jain (2019) this research reveals that the relationship between dividend pay-out and market price of shares. The authors focus on listed automobile sector companies on the basis of NIFTY 50 index from the period of ten years from 2009 to 2018. It is to find out whether companies dividend decisions affect the price of their shares. We find that there is a strong relationship between the dividend pay-out ratio

and a company's market value for some companies, while other companies have negative relationship.

Kakkar, and Sharma (2019) examined the impact of dividend policy on shareholder wealth for top 5 firms from the Indian automobile industry that are selected based on market capitalization. This research builds on previous literature by using dividend per share (DPS) and earnings per share (EPS) as proxies to shareholder wealth and dividend policy. Correlation and simple regression techniques were used to analyse data for the period 2011-12 to 2015-16. The results of study conclude that dividend policy is an important determinant on shareholder wealth consistent with the dividend policy theory. It points out that dividend announcement is a signal of the future prospects of the company which increased value perception of the stock of the company.

Pinto, and Rastogi (2019) since this study deals with the factors that explain dividend policies across various sectors in India, the industry sector is the focus of this study. The research is based on balanced panel data of companies listed on the National Stock Exchange (NSE) of India over 12 years, from 2006 to 2017. The analysis is performed both with pooled ordinary least squares (POLS) and fixed effects panel models. It is shown that company size, profitability and interest coverage ratios significantly affect dividend policy. If this is the case, it follows that even firms with higher cash flow volatility and lower growth opportunities maintain dividend pay-out. In addition, the study shows that dividend policies are significantly different between different industrial sectors in India.

Chakraborty, Shenoy, and Kumar (2018) their study identifies that explore the relationship between dividend policy (dividend pay-out ratio) and financial variables including profitability, capital structure, investments, liquidity and cash flows. The study uses ANOVA, correlation analysis and regression analysis to analyse these relationships. The results suggest that dividend policy in the Indian auto components sector depends on operating profit, cash from operations, proportion of cash used in financing investment activities, and equity share in capital structure. This research is concerned with the underexplored Indian auto component sector and offers recommendations for revision of dividend policy, particularly with respect to the cash flow to capital expenditure ratio, which is found to be important for the selected sample of auto manufactures.

Marvadi (2016) in this study found that the relationship between dividend policy (dividend pay-out ratio) and financial variables including profitability, capital structure, investments, liquidity and cash flows. The study uses ANOVA, correlation analysis and regression analysis to analyse these relationships. The results suggest that dividend policy in the Indian auto components sector depends on operating profit, cash from

operations, proportion of cash used in financing investment activities, and equity share in capital structure. This research is concerned with the underexplored Indian auto component sector and offers recommendations for revision of dividend policy, particularly with respect to the cash flow to capital expenditure ratio, which is found to be important for the selected sample of auto manufactures.

Patra (2011) the purpose of this study is to explore the main determinants of automobile sector listed companies' share prices on the National Stock Exchange (NSE) of India. The research investigates period 2006-07 to 2020-21, using a sample of five large cap companies. In order to accomplish the study's objective, Pearson's correlation was used to test for collinearity, the Shapiro-Wilk test for data normality, and the Hausman test to determine which model is preferable, fixed effect vs. random effect. The regression analysis reveals a significant and positive influence of variables such as Dividend Pay Out Ratio (DPR), Earnings per Share (EPS), Price to book value (PBR) and company size on share prices.

3. Statement of the Problem

Dividend policy does matter, and it can be an important aspect of a company's financial strategy that will impact investor perceptions, a company's performance, and its long-term sustainability. Nevertheless, the effect of dividend policies on the financial performance of firms in the sector (i.e., those listed on the national stock exchange (NSE) remains unexplored. Dividend decisions are often viewed as a sign of financial health, but little is known about how dividend decisions actually impact growth, profitability, and pricing in emerging markets like India. The aim of this study is to examine how such dividend policies affect the performance of firms in automobile sector listed in the National Stock Exchange (NSE). This research, specifically focuses on how the different dividend strategies influence the financial performance indicators, which include profitability, stock market performance and overall growth in order to shed some light on the role of dividend policy on the future of investment in automobile sector in India.

4. Objective of the Study

The primary objective of the present study is to assess the impact of the dividend policy of the select Nifty 50 index automobile sector companies on their performance.

5. Hypotheses

H01: There is no significant relationship among the dividend per share to price to earning and earning per share.

H02: There is no significant influence among return on equity to DPS, PE, and EPS.

H03: There is no significant influence among return on assets to DPS, PE, and EPS.

6. Research Methodology

This study focuses specifically on the automobile sector in India, analysing the performance of top companies based on the Nifty 50 index. Five companies out of six companies were selected for the research are Hero Motors Ltd., Mahindra and Mahindra Ltd., Maruti Suzuki Ltd., Bajaj Motors Ltd., and Eicher Motors Ltd. The research considers Dividend per Share (DPS), Earnings per Share (EPS), and Price to Earnings (PE) ratio as independent variables that are related to dividend policies. The dependent variables, which reflect the companies' performance, are Return on Equity (ROE) and Return on Assets (ROA). Secondary data for the analysis has been gathered from moneycontrol.com, covering a period of five years from 2020 to 2024. The study employs Pearson correlation and regression analysis to examine the relationship among these variables.

7. Data Analysis

Dividend per Share (DPS)

It's calculated by dividing the total dividends distributed by a company among its shareholders by the total number of outstanding shares of the company.

Table 1. Dividend per Share of Automobile Sector Companies in NSE (Rs. per share)

Company Name	2020	2021	2022	2023	2024
Hero Motor	90	105	95	100	140
Mahindra & Mahindra	2.35	8.75	11.55	16.25	21.10
Maruti Suzuki	60	45	60	90	125
Bajaj Motor	120	140	140	140	80
Eicher Motor	125	17	21	37	51

Source: https://www.moneycontrol.com/financials/heromotocorp/ratiosVI/HHM

It is observed from the table 1 dividend per share of select five automobile sector companies in NSE. Hero Motor and Bajaj Motor Companies are the highest dividend per share 140 rupees and Mahindra & Mahindra Company is the lowest dividend per share 2.35 rupees during the years 2020 to 2024. The above select five automobile companies were observed that Mahindra and Mahindra company was increased their dividend per share during the study period. Reaming four companies were volatility nature for paying dividend per share.

Earnings per Share (EPS)

Basically, this financial metric shows the amount of money a company earns per common stock. It is a key measure of a company's profitability and one used vary widely by investors assessing its financial performance.

Table 2. Earnings per Share (EPS) of Automobile Sector Companies in NSE

Company Name	2020	2021	2022	2023	2024
Hero Motor	181.91	148.39	123.78	145.66	198.53
Mahindra & Mahindra	11.16	2.25	41.28	54.70	89.42
Maruti Suzuki	187.06	140.02	124.68	266.46	431.08
Bajaj Motor	176.30	157.50	173.60	197.30	264.60
Eicher Motor	697.50	48.68	58.02	95.91	136.98

Source: https://www.moneycontrol.com/financials/heromotocorp/ratiosVI/HHM

It can be analysed above the table 2 Earnings per share of select five automobile sector companies in NSE during the years from 2020 to 2024. During the study period is that the Maruti Suzuki Company has highest Earnings per share ratio up to 431.08 and Mahindra & Mahindra Company has the lowest Earnings per share ratio 2.25.

Price to Earnings (PE)

As it is used in investing, the P/E ratio indicates to investors how much they are willing to pay for a unit of the company's earnings, and what such earnings are likely to earn in the future, reflecting what the market expects of the company's future growth and profitability.

Table 3. Price to Earnings (PE) of Automobile Sector Companies in NSE

Company Name	2020	2021	2022	2023	2024
Hero Motor	8.75	19.96	19.81	16.69	25.18
Mahindra & Mahindra	24.69	48.71	13.62	12.55	19.01
Maruti Suzuki	22.81	47.20	58.85	31.55	29.40
Bajaj Motor	11.24	21.88	17.14	18.13	33.12
Eicher Motor	1.96	52.83	40.12	27.69	27.51

Source: https://www.moneycontrol.com/financials/heromotocorp/ratiosVI/HHM

The price-to-earnings (P/E) ratio reflects investor confidence and expectations about a company's future price growth. A low P/E ratio suggests that investors view the company as a potential investment opportunity, while a high P/E ratio indicates higher

risk. Overall, the P/E ratios of the selected automobile sector companies tend to be relatively high. It ranges from 1.96 to 58.85.

Return on Equity (ROE)

A financial metric which assesses how much a company can generate profits from the equity capital invested by its shareholders. The amount is determined by the company's net income over a specific period divided by average shareholders' equity over the same period. ROE is the degree to which a company is capable of turning its equity capital into profits, expressed as a percentage. A good ROE value indicates that equity is utilized efficiently to generate the amount of earnings in return for the shareholders while the other values are suggesting lack of efficiency of returns to the shareholder. Table below gives the ROE ratios for the selected automobile sector companies.

Table 4. Return on Equity (ROE) of Automobile Sector Companies in NSE

Company Name	2020	2021	2022	2023	2024
Hero Motor	25.70	19.50	15.66	17.42	22.06
Mahindra & Mahindra	3.86	0.77	12.66	15.10	20.50
Maruti Suzuki	11.66	8.23	6.96	13.33	15.72
Bajaj Motor	25.59	18.07	18.81	22.13	30.08
Eicher Motor	23.00	13.70	14.69	20.35	23.89

Source: https://www.moneycontrol.com/financials/heromotocorp/ratiosVI/HHM

It can be evaluated above the table 4 Return on Equity (ROE) ratio of select five automobile sector companies in NSE during the years from 2020 to 2024. During the study period is that the Hero Motor Company has highest return on equity ratio up to 25.70 and Mahindra & Mahindra Company has the lowest return on equity ratio 0.77.

Return on Assets (ROA)

This is a financial ratio to assess the ability of a company to be making profits from their assets. It is a measure which is calculated as dividing the company's net income by average value of its total asset over a particular period. ROA is simply expressed as a percentage and represents the percentage of a company's assets used to generate earnings. A higher ROA indicates well utilized assets to generate indirect profit, while a lower ROA indicates suboptimal utilized assets.

Table 5. Return on Assets (ROA) of Automobile Sector Companies in NSE

Company Name	2020	2021	2022	2023	2024
Hero Motor	19.37	13.37	11.38	12.51	15.51
Mahindra & Mahindra	2.63	0.45	7.35	8.64	12.78
Maruti Suzuki	9.03	6.03	5.13	9.67	11.97
Bajaj Motor	20.58	14.44	15.72	18.07	21.83
Eicher Motor	17.99	10.53	11.10	15.54	18.31

Source: https://www.moneycontrol.com/financials/heromotocorp/ratiosVI/HHM

It can be specified that the above table 5 Return on Assets (ROA) ratio of select five automobile sector companies in NSE during the years from 2020 to 2024. During the study period is that the Bajaj Motor Company has highest return on assets ratio up to 21.83 and Mahindra & Mahindra Company has the lowest return on assets ratio 0.45.

Relationship between the factors of dividend

The study has used dividend per share, price-to-earnings ratio, and earnings per share as parameters to assess the factors influencing performance. **There is no significance relationship among the dividend per share to price to earning and earning per share.** The relationship between these factors is analysed as follows.

Table 6. Correlations

Independent Variables		Dividend per share	Price Earning Ratio	Earning per Share
Dividend per share	Pearson Correlation	1	.226	.746**
	Sig. (2-tailed)		.277	.000
	N	25	25	25
Price Earning ratio	Pearson Correlation	.226	1	.171
	Sig. (2-tailed)	.277		.414
	N	25	25	25
Earning per Share	Pearson Correlation	.746**	.171	1
	Sig. (2-tailed)	.000	.414	
	N	25	25	25

**. Correlation is significant at the 0.01 level (2-tailed).

The relationship between dividend per share (DPS) and earnings per share (EPS) is found to be significantly positive (0.746). Similarly, the relationship between DPS and price-to-earnings (PE) ratio is also significant and positive (0.226). Therefore, it can be concluded that the dividend paid per share is positively correlated with EPS and price to earnings

ratio. Hence, the null hypothesis there is no significance relationship among the dividend per share to price to earning and earning per share is rejected.

Influence of the dividend factors on the Return on Equity (ROE)

Return on Equity (ROE) is a crucial indicator of a company's performance. The relationship between dividends and ROE is analysed using regression analysis, as outlined below.

Table 7: Model Summary and ANOVA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.642[a]	.412	.328	5.76862	.412	4.899	3	21	.010
a. Predictors: (Constant), Earning per share, price earning ratio, Dividend per share									

This model aims to assess how dividends affect Return on Equity (ROE). In this context, ROE is the dependent variable, while Earnings per Share (EPS), Price-to-Earnings (PE) ratio, and Dividends per Share (DPS) serve as independent variables. The model yields an R value of 0.642 and an R-squared value of 0.412. The ANOVA results indicate that the F value is not significant, suggesting that the model is not a good fit. **There is no significance influence among return on equity to DPS, PE, and EPS.** The influence of the independent variables is evaluated as follows.

Table 8: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	14.416	2.835		5.086	.000
Dividend per share	.047	.032	.323	1.454	.161
Price to Earning ratio	-.055	.028	-.367	-1.982	.061
Earning per Share	.005	.010	.100	.469	.644
a. Dependent Variable: Return on Equity (ROE)					

The regression analysis reveals that none of the independent variables have a statistically significant impact on the return on equity (ROE). Dividend per share shows a positive but insignificant relationship with ROE (B = 0.047, p = 0.161), suggesting a weak association. The price-to-earnings (P/E) ratio exhibits a negative relationship with ROE (B = -0.055, p = 0.061), which approaches significance but does not provide sufficient evidence to confirm a strong effect. Earnings per share (EPS) has a minimal and

statistically insignificant positive impact on ROE (B = 0.005, p = 0.644), indicating limited relevance to variations in equity returns. Hence, the null hypothesis there is no significance influence among return on equity to DPS, PE, and EPS is accepted.

Influence of the dividend factors on the Return on Assets (ROA)

The return on assets is affected by dividend factors, as analysed through a regression model.

Table 9: Model Summary and ANOVA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.685[a]	.469	.393	4.31275	.469	6.174	3	21	.004
a. Predictors: (Constant), Earning per share, price earning ratio, Dividend per share									

The regression model explains 46.9% of the variance in the dependent variable, as indicated by the R Square value of 0.469. The Adjusted R Square of 0.393 suggests that, after adjusting for the number of predictors, the model still captures a substantial proportion of the variance. The model's overall significance (F = 6.174, p = 0.004) confirms that the predictors dividend per share, price-to-earnings ratio, and earnings per share collectively have a statistically significant impact on the dependent variable. However, the standard error of the estimate (4.31275) indicates some variability in predictions, suggesting room for improving the model by including additional explanatory variables. **There is no significance influence among return on assets to DPS, PE, and EPS.**

Table 10: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	11.236	2.912		3.859	.001
Dividend per share	.050	.024	.440	2.109	.047
Price earning ratio	-.119	.068	-.306	-1.737	.097
Earning per share	.003	.008	.085	.415	.683
a. Dependent Variable: Return on Assets					

The regression analysis indicates that the dividend per share has a statistically significant positive impact on the return on assets (ROA) (B = 0.050, p = 0.047), suggesting that

higher dividends are associated with improved asset returns. Conversely, the price-earnings (P/E) ratio shows a negative but not statistically significant relationship with ROA (B = -0.119, p = 0.097), implying that higher P/E ratios may correlate with lower ROA but lack strong evidence. Earnings per share (EPS) has a minimal and statistically insignificant effect on ROA (B = 0.003, p = 0.683), indicating it does not significantly contribute to changes in ROA within this model. Hence, the null hypothesis there is no significance influence among return on assets to DPS, PE, and EPS is accepted.

8. Findings

These are the major findings of the study.

1. The significant relationship between dividends and earnings emphasizes the importance of (0.746) strong earnings in supporting higher dividend pay-outs, whereas the (0.226) weak link with the P/E ratio suggests other factors might influence valuation metrics.

2. The regression model explains 41.2% of the variance in the dependent variable, the ANOVA results indicated that the significance value is 0.010>0.05 so, there is no significant.

3. The regression analysis of dependent variable Return on equity (ROE), the independent variables of significance values dividend per share (0.161), price to earnings (0.061), and earnings per share (0.644) were more than the significance value (0.05) hence, there is no significant influence on ROE.

4. The regression model explains 46.9% of the variance in the dependent variable, the ANOVA results indicated that the significance value is 0.04<0.05 so, there is a significant.

5. The regression analysis of dependent variable Return on Assets (ROA), the independent variables of significance values dividend per share (0.047), price to earnings (0.097), and earnings per share (0.683) were more than the significance value (0.05) hence, there is no significant influence on ROA.

9. Suggestions

1. Investors and decision-makers should consider incorporating additional factors such as market conditions, growth potential, and industry-specific dynamics when evaluating valuation metrics and dividend policies.

2. Statistical significance of the lack of coefficient means that further research is needed for relevant variables or a better model for better explanatory power.

3. In order to enhance the model's ability to explain ROE, other variables or factors which may have more impact may be investigated.

4. Specific contributions to the predictive accuracy of the model, whether the input features are independent, are suggested by it to make a deeper analysis of the independent variables.

5. By fitting better model or adding more of the factors in the model, we can enhance explanatory power of the model to better understand the effects on ROA.

10.Conclusion

The study on the impact of dividend policy on the performance of the selected automobile sector in the NSE for years from 2020 to 2024 puts dividend decisions in the spotlight in their role in shaping financial and market dynamics of companies. These findings show that dividend per share is positively related to EPS and price to earning ratio. The results show that DPS, PE and EPS have no significant impact on the dependent variable Return on equity (ROE). DPS, PE, and EPS proved to have a relationship with Return on assets (ROA). Dividend pay-outs and dividend policies decisively affect the sentiment of investors, the share price stability, and, ultimately the company's performance. While earnings and dividend distributions continue to be key drivers of shareholder value, other factors, including the state of the market, the trend of an industry, and the policies of the economy, is also important. A well-structured dividend policy has proved to not only improve investor's confidence, but also support the automobile sector's long-term growth and stability.

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